IMT Asset Management AG
Austrasse 56 · P.O. Box 452
9490 Vaduz, Liechtenstein
asset@imt.li · www.imt.li

INVESTMENT OUTLOOK 02.2024

10 April 2024

In the first quarter the stock markets in particular registered significant gains, because the majority of investors were expecting the first interest rate cuts by central banks, further reductions in inflation and an acceleration of economic growth.

In our view, however, the macroeconomic picture is quite complicated. Aggressive rate hikes, as seen since March 2022, usually cause a recession sooner or later. The US economy, though, has remained surprisingly resilient. At the same time, while inflation fell significantly in the last twelve months it remains clearly above the central bank target. In fact US inflation has re-accelerated somewhat in recent months, causing investors to start wondering whether inflation and interest rates may stay higher for longer.

We are maintaining our defensive position. We are staying underweight in shares, REITs, high-yielding bonds, and commodities. Conversely, we are overweight in government bonds, insurance-linked bonds and liquidity.

Thomas Trauth
CEO – IMT Asset Management AG

FEAR OF INFLATION RETURNS

Financial Markets

In December, US Fed chairman Jerome Powell adopted a more dovish tone in his announcements, raising the prospect of several interest rate cuts in 2024. As a result, conditions for financing eased somewhat, which had a positive effect on certain economic activities. In consequence, the stock markets especially recorded gains, which were partly quite substantial. The S&P500 Index rose in the first quarter by 10.2%, the MSCI Europe by 7.0% and the Nikkei 225 surged 20.6%. Emerging Markets (+1.9%), Dividend Aristocrats (-0.1%) and the Chinese CSI 300 (+3.1%) underperformed. The best performing sectors have been tech and energy.

In Q1 the magnitude of the interest rate cuts expected by the market was reduced since the US economy remained strong and inflation had re-accelerated somewhat. The divergence of growth and inflation between the US and Europe led to increased demand for European government bonds. Large asset managers, like Pimco, JPMorgan Asset Management and others have reportedly started to sell US Treasury bonds and to buy European government bonds instead. As a result, the yield differential between US and German bonds has widened to about 200 basis points.

The risk-on environment led to strong demand for high-yield bonds and a general tightening of credit spreads.

Gold continued to surge (+8% in Q1) and recently reached an all-time high at almost USD 2,350. This movement was partly driven by strong demand from central banks in emerging markets, which want to diversify their reserves. After the seizure of Russian reserves in response to the invasion of Ukraine, central banks of countries such as China, Turkey, and India started to increase their gold holdings to avoid future confiscations.

The oil price rose, especially in March, after concerns that the Gaza war could escalate to include Iran directly. REITS continued to underperform, probably on the back of rising bond yields.

Crypto assets continued to rally, albeit with a breather recently, due to strong demand from newly approved ETFs. Bitcoin gained 67% and Ethereum 59% in Q1.

The USD strengthened by about 2% vis-à-vis the EUR, driven by a widening yield differential. After the SNB cut rates and the Bank of Japan delivered a dovish rate hike, the EUR gained about 5% against both the CHF and the JPY. The Turkish TRY continued to fall, by about 10% in Q1, due to very high inflation and Turkey's loose monetary policy.

Macroeconomics

While the European economy faltered, the US economy proved very robust. Quite a large number of new jobs are still being created on the US labor market. Non-farm payrolls unexpectedly rose by 303,000 in March. As a result, wage growth remains relatively high.

Consequently, US inflation is persisting stubbornly at a figure around 3%, depending on the method of measurement, and this is still clearly above the central bank's target of 2%. Headline inflation for example rose to 3.5% in March from 3.1% in January, while core inflation was 3.8%.

Because of this, the magnitude of the interest rate cuts expected by the market was reduced, and bond yields rose quite vigorously by about 0.35% points in Q1.

Central Banks

The US Fed as well as the ECB left rates unchanged in the first quarter of this year. Fed chairman Powell just recently said that the Fed's task of bringing down inflation is not yet done, thus striking a rather cautious note regarding the prospect of future rate cuts. Since the economic growth and inflation outlook in Europe is currently diverging from that of the US, the ECB may be able to cut rates earlier than the US Fed. Eurozone inflation has moderated and fell to 2.4% in March from 2.8% back in January.

On 21 March the SNB surprised markets with an interest rate cut of 25 basis points to 1.5%. Swiss inflation did not rise as high as in other countries. Currently at 1%, it is thus within the SNB's target band. As a result, the CHF clearly weakened.

On 19 March the Bank of Japan ended a long era of negative interest rates. The Bank of Japan is keeping the overnight interest rate within a range of zero to 0.1%. The benchmark rate was previously minus 0.1%. This move was widely expected and had no significant market impact. In fact the JPY continued to weaken.

Outlook

In defiance of the massive increases in interest rates, the US economy in particular proved to be very robust. This can be explained by the excess savings accumulated during the corona crisis, the highly expansionary fiscal policy, and the interest rates fixed for the long term for many corporate loans and mortgages. Nevertheless, a number of developments indicate that a slowdown in growth is to be expected. Credit growth has slowed significantly in Europe and also in the USA. There has recently been a sharp increase in loan defaults in US real estate financing and consumer credit. Quite a number of US companies have announced job cuts after a drop in corporate profits for the last quarter of 11% on average — excluding the profit figures of the Magnificent 6.

In addition, we consider that because of the continuing high wage pressure, it will take a long time for US inflation to come close to the central bank target. Therefore, we expect only very moderate interest rate cuts this year, if any at all. In fact, it is quite conceivable that the focus will once again shift to the "higher-for-longer" principle, and market hopes will be dashed.

Furthermore, we think that expectations regarding artificial intelligence and the associated share valuations are exaggerated, which might lead to price corrections for the well-known technology stocks.

We still see significantly elevated levels of geopolitical risk. If Donald trump is re-elected it is highly probable that there will be Republican majorities in the Senate and House of Representatives. This means that should Trump become President, he would have a great deal of room to maneuver. It is likely that there would be substantial tax cuts but also geopolitical upheavals. In particular, NATO would be weakened, as would Ukraine. An additional factor is that following the recent air strike by Israeli forces on the Iranian embassy in Syria, reprisals by the Iranians can be expected.

ECONOMICS

While it seems that the purchasing managers' indices are bottoming out, inflation remains higher than central banks' targets. In the US inflation accelerated somewhat in recent months. In March inflation rose to 3.5% from 3.1% in January. The big question is whether this increase is only temporary or the result of the Fed's pivot in December, which led to easier financial conditions. The US labor market continued to create additional jobs. Non-farm payrolls unexpectedly rose by 303,000 in March.

Fig. 1: PMIs

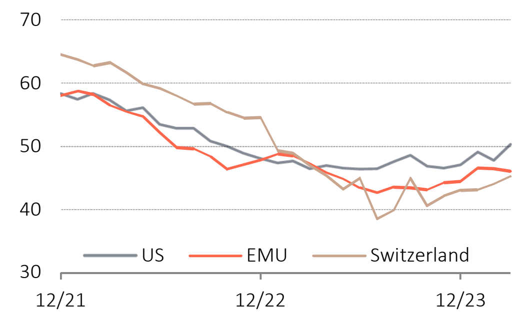


Fig. 2: PMIs

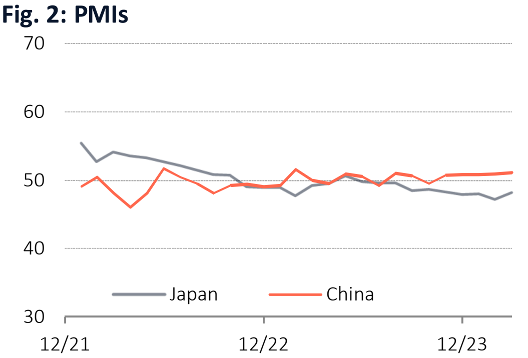


Fig 3: Consumer price inflation, in % YoY

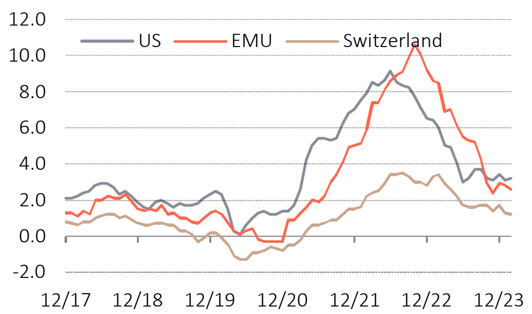


Fig. 4: Consumer price inflation, in % YoY

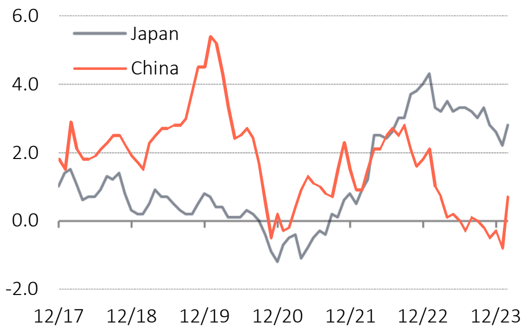


Fig 5: Unemployment rates, in %

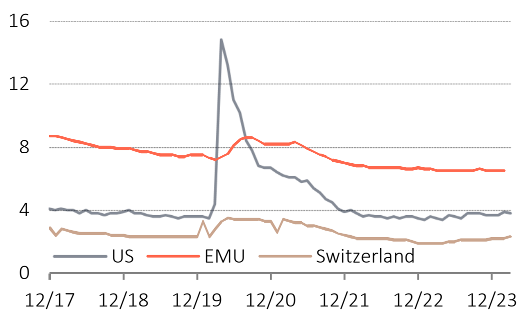


Fig 6: US labor market

FIXED INCOME

In Q1 the magnitude of the interest rate cuts expected by the market was reduced since the US economy remained strong and inflation had re-accelerated somewhat. The divergence of growth and inflation between the US and Europe led to increased demand for European government bonds and a widening of the US-German yield differential. The risk-on environment led to strong demand for high-yield bonds and a general tightening of credit spreads.

Fig.7: 2Y government bond yields

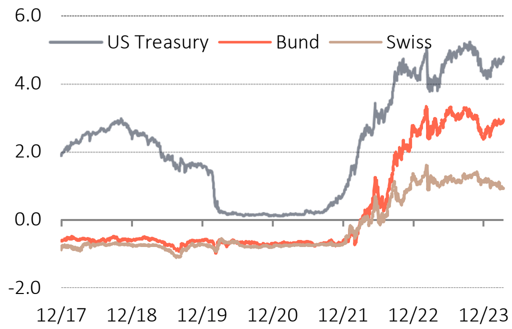


Fig. 8: 10Y government bond yields

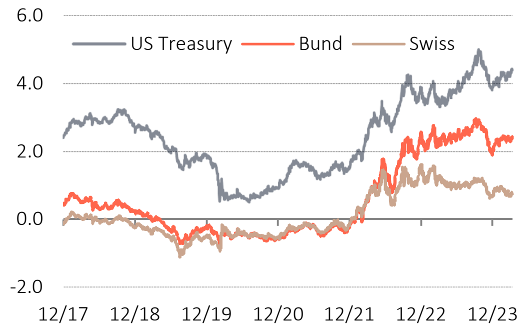


Fig 9: 10Y break-even inflation

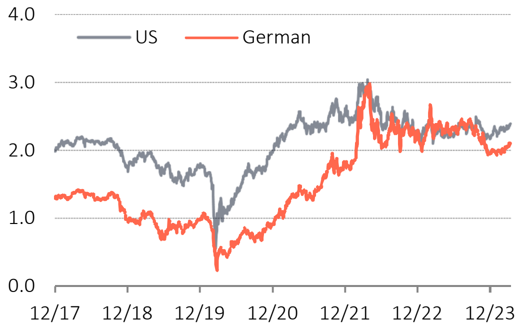


Fig. 10: Credit spreads, 5Y credit default swaps

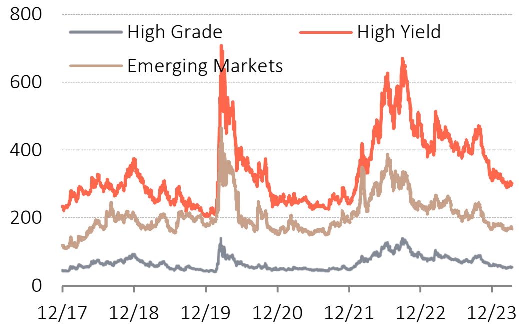


Fig 11: Money market spreads (3M-2Y)

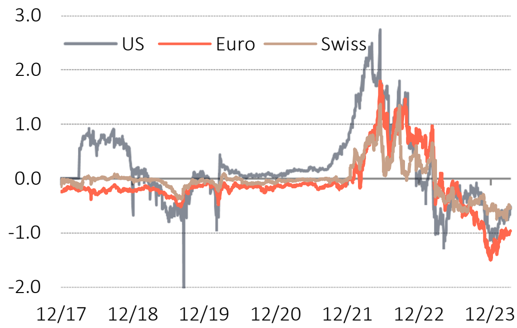
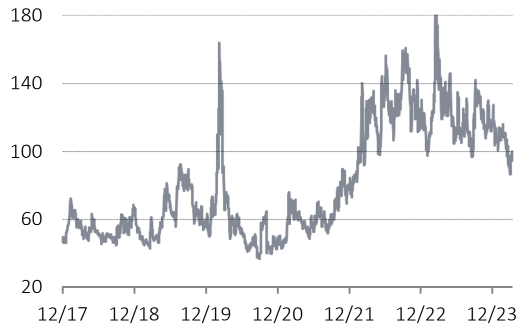


Fig 12: Merrill Lynch volatility index (MOVE)



EQUITIES

The year started on a strong footing for most equity markets. The S&P500 Index rose in the first quarter by 10.2%, the MSCI Europe by 7.0% and the Nikkei 225 surged 20.6%. Emerging Markets (+1.9%), Dividend Aristocrats (-0.1%) and the Chinese CSI 300 (+3.1%) underperformed. The best performing sectors have been tech and energy.

Fig. 13: MSCI equity indices – major regions

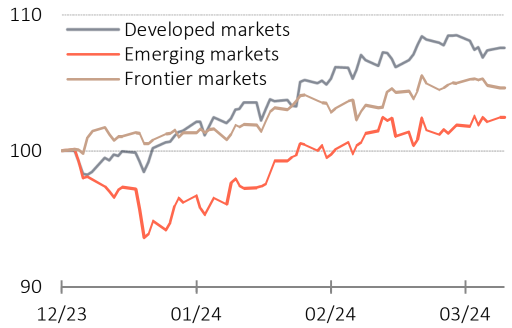


Fig.14: Equity indices – major developed markets

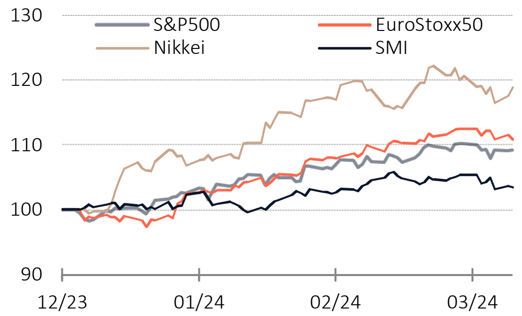


Fig 15: Equity indices – major emerging markets

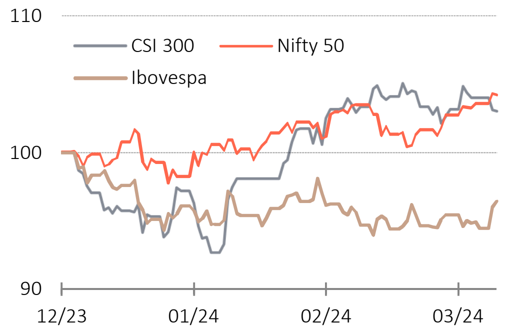


Fig. 16: Sector performance, MSCI Indices, 2022

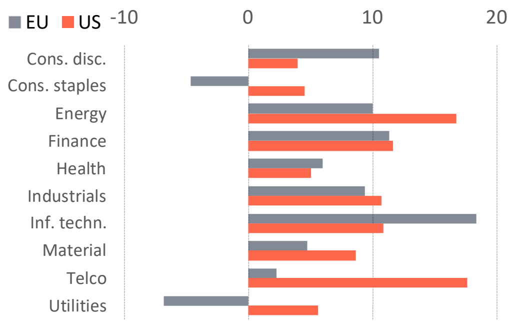


Fig 17: Price-earnings ratios

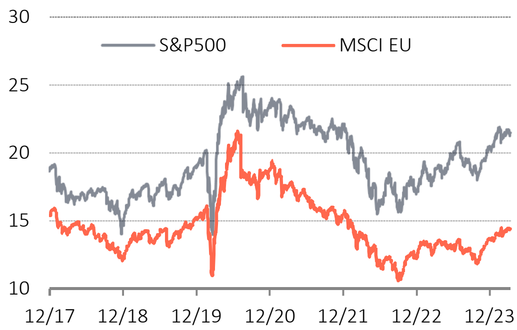
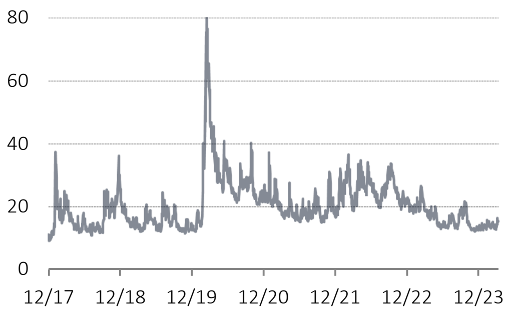


Fig 18: Equity volatility – S&P500 VIX index



ALTERNATIVE INVESTMENTS

Gold continued to surge (+8% in Q1) and recently reached an all-time high at almost USD 2,350. The oil price rose, especially in March, after concerns that the Gaza war could escalate to include Iran directly. REITS continued to underperform, probably on the back of rising bond yields. Crypto assets continued to rally, albeit with a breather recently, due to strong demand from newly approved ETFs. Bitcoin gained 67% and Ethereum 59% in Q1.

Fig. 19: Gold price, USD/oz

Fig.20: Brent oil price, USD/bl

Fig 21: Bloomberg commodity indices

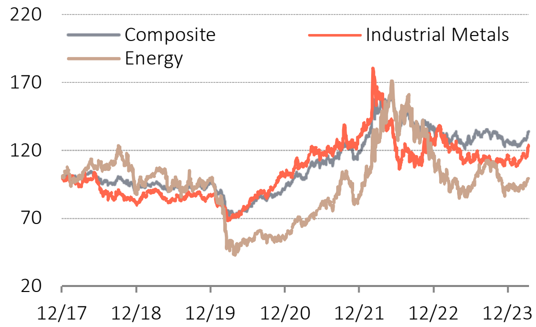
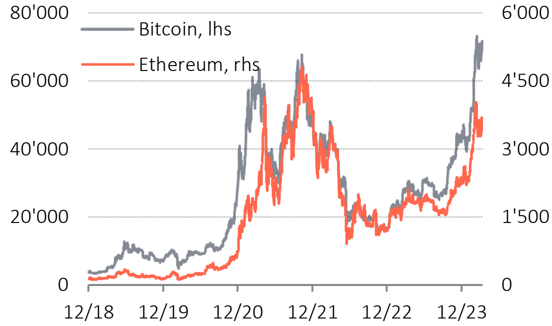


Fig. 22: Global Listed Private Equity

Fig 23: FTSE EPRA/NAREIT global REITS index

Fig 24: Crypto Assets



CURRENCIES

The USD strengthened vis-à-vis the EUR, driven by a widening yield differential. After the SNB cut rates and the Bank of Japan delivered a dovish rate hike, the EUR gained against both the CHF and the JPY. The Turkish TRY continued to fall, by about 10% in Q1, due to very high inflation and Turkey's loose monetary policy.

Fig. 25: EUR-USD exchange rate

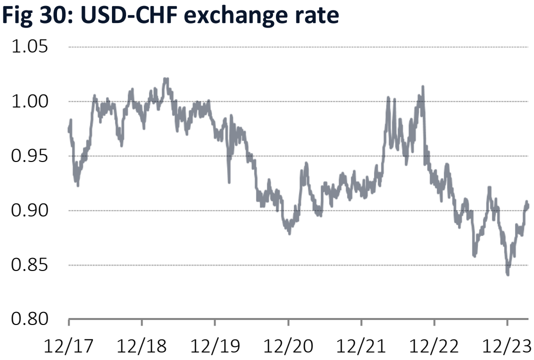
Fig. 26: GBP-USD exchange rate

Fig 27: USD-JPY exchange rate

Fig. 28: USD-CNY exchange rate

Fig 29: EUR-CHF exchange rate

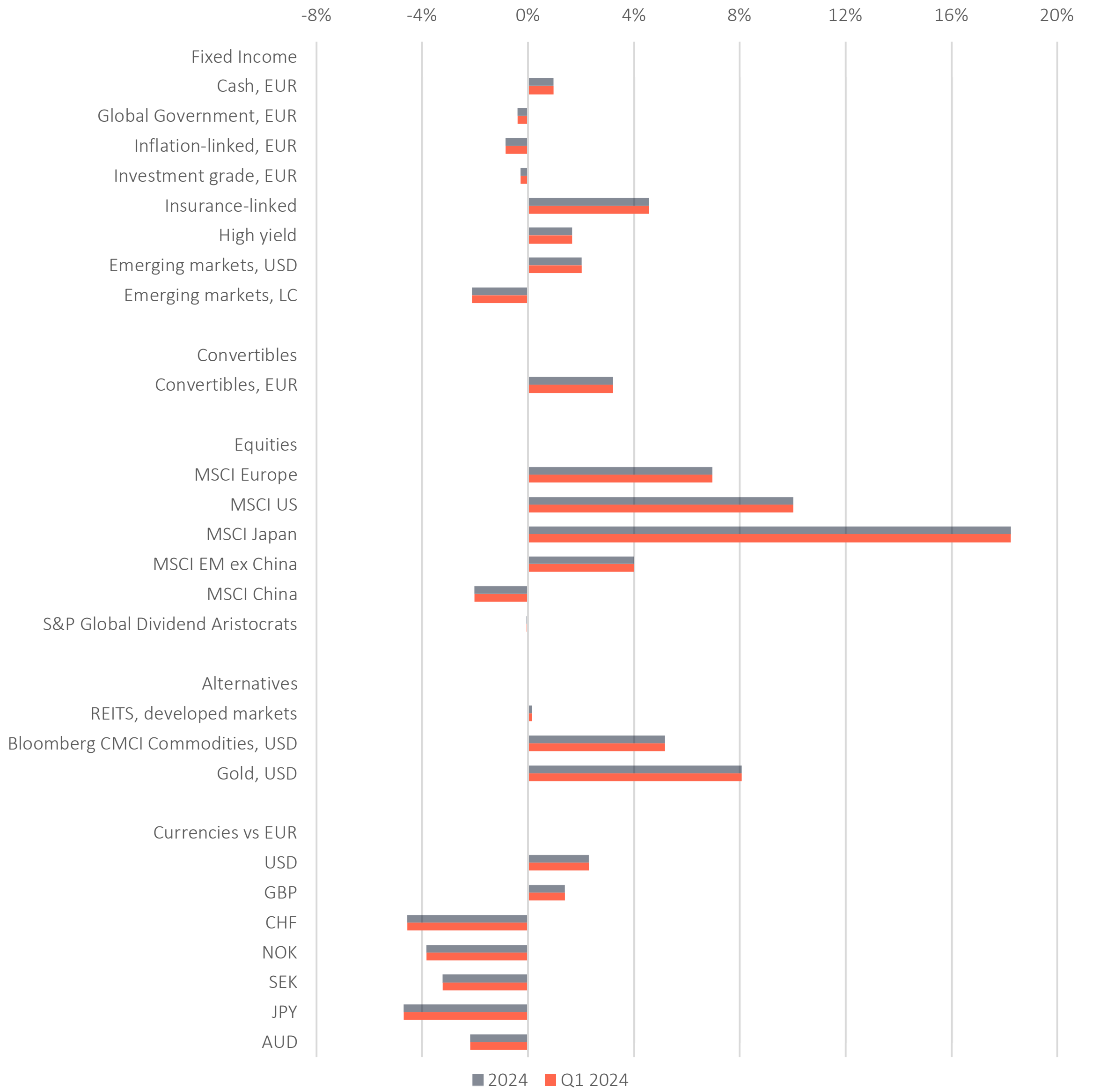
Fig 30: USD-CHF exchange rate



ASSET ALLOCATION

In Q1 risky assets outperformed. Especially the Japanese stock market continued to rally and gained 18%. The Global Dividend Aristocrats and REITS were about flat and underperformed. Gold and oil performed strongly. Gold was driven by strong central bank demand. Oil demand picked up in March as concerns about escalating tensions in the Middle East rose. Government bonds fell on the back of reduced rate cut expectations.

Fig. 31: Performance of major asset classes, based on our EUR portfolio strategy



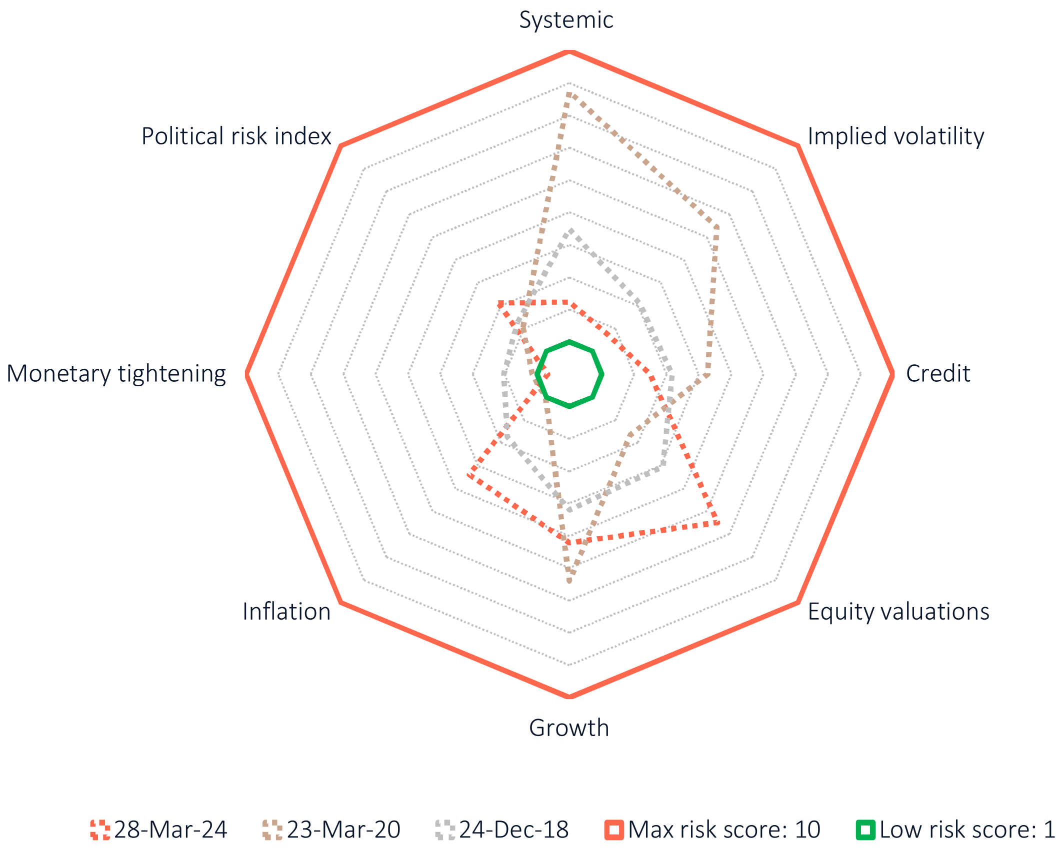
RISK MONITOR

Inflation, growth, and equity valuations score high on our risk monitor. Despite the wars in Ukraine and Gaza we do not see a spike in the political risk index. This suggests that people regard contagion risks as low.

Monetary tightening is completely off the table and systemic risks appear to be low, i.e., the banking sector is seen as being solid.

Fig. 32: IMT Risk Monitor

24-Dec-2018: Growth and monetary tightening fears
23-Mar-2020: Global pandemic



DISCLAIMER

This document is for information purposes only and is not a solicitation of an offer or a recommendation to buy or sell any investment instruments or to engage in other transactions. This document contains data and information which are prepared by IMT Asset Management AG. Although IMT Asset Management AG takes care to ensure that the information in this document is correct at the time it was collected, IMT Asset Management AG neither explicitly nor implicitly provides any assurance or guarantee of accuracy, reliability or completeness, and assumes no liability or responsibility for either its own or for third-party publications. IMT Asset Management AG is not liable for any direct, indirect or incidental loss incurred on the basis of the information in this document and/or on the risks inherent in financial markets. Investment in financial products should be done only after carefully reading the relevant legal requirements, including sales restrictions or any other risk factors. Any opinions represented in this document solely reflect those of IMT Asset Management AG or specified third-party authors at the time of publication (subject to modifications). The services mentioned in this document are addressed exclusively to clients of IMT Asset Management AG.

Source for all graphs: Bloomberg, IMT Asset Management AG.